

Message Text

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ACTION EUR-12

INFO OCT-01 AF-08 ARA-06 EA-07 NEA-10 IO-13 ISO-00 FEA-01
ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00
EB-07 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05
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TRSE-00 ACDA-07 PA-01 PRS-01 OPIC-03 XMB-02 FRB-03
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FM AMEMBASSY PARIS
TO SECSTATE WASHDC 8253
INFO ALL EC CAPITALS 0279
USMISSION GENEVA
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USMISSION NATO
AMEMBASSY BERN
AMEMBASSY LISBON
AMEMBASSY MADRID
AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
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TAGS: ENRG;FR
SUBJECT: OPEC DOHA MEETING: FRENCH REACTIONS

REF:(A)PARIS 34914 (B) PARIS 34828 (C) PARIS 33541
1. SUMMARY: GOF REACTION TO OPEC PRICE RISES
CAME EVENING DECEMBER 22 AS PRIME MINISTER BARRE AND

INDUSTRY MINISTER D'ORNANO HELD PRESS CONFERENCE TO ANNOUNCE DECISIONS CABINET HAD JUST TAKEN TO COPE WITH ENERGY SITUATION. WHILE NOTING MORE MODERATE STANDS TAKEN BY SAUDI ARABIA AND UAE, BARRE STRESSED THAT NEW OPEC PRICES WERE GOING TO RESULT IN HEAVY PRESSURE ON FRENCH ECONOMY IN GENERAL AND BALANCE OF PAYMENTS IN PARTICULAR. AFTER YET ANOTHER REAFFIRMATION OF GOVERNMENT'S INTENTION TO LIMIT VALUE OF OIL IMPORTS TO 55 BILLION FRANCS (ONE DOLLAR EQUALS 4.96 FRANCS) DURING 1977 (REF A), HE APPEALED TO ALL FRENCH CITIZENS TO SUPPORT GOVERNMENT'S ENERGY POLICY AS AN ESSENTIAL FACTOR IN PRESERVING THEIR STANDARD OF LIVING, AND HAD D'ORNANO INTRODUCE NEW SERIES OF TIGHTER CONSERVATION MEASURES OUTLINED BELOW. MAJORITY OF OUR CONTACTS SEE DOMESTIC PETROLEUM MARKET HERE AS STARTING OFF 1977 WITH LOW LEVEL OF ACTIVITY AND OVERALL IMPORT PRICES FOR FIRST SIX MONTHS OF YEAR AS LIKELY TO END UP AT AROUND EIGHT PERCENT HIGHER THAN CURRENT ONES. AN INCREASED IMPORT BILL OF ABOUT SIX BILLION FRANCS (\$1.2 BILLION) IS ESTIMATED FOR 1977, BY THESE SAME SOURCES. AMERICAN COMPANIES WITH TRADITIONAL ACCESS TO SAUDI CRUDE SAY THEY ARE APPREHENSIVE OF MIGHT SLAP COMPENSATION DUTIES ON THEIR IMPORTS OF CHEAPER OILS. END SUMMARY.

2. FRANCE'S OFFICIAL REACTION TO NEW OPEC PRICE INCREASES CAME ON DECEMBER 22 WHEN PRIME MINISTER BARRE DIRECTED COUNCIL OF MINISTERS TO ACT UPON SERIES OF RECOMMENDATIONS SUBMITTED BY NEWLY-LIMITED OFFICIAL USE

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FORMED INTERMINISTERIAL ENERGY COUNCIL (REF A). AT PRESS CONFERENCE CALLED THAT EVENING TO EXPLAIN MEASURES TAKEN, PM FIRST EMPHASIZED THAT ALTHOUGH FRANCE DID NOT REPEAT NOT FIX ABSOLUTE PETROLEUM CONSUMPTION LIMITS FOR 1976, EXPENDITURES FOR THIS YEAR WOULD BE ABOUT AT ANTICIPATED 51 BILLION FRANC LEVEL (N.B. INDUSTRY SOURCES BELIEVE SUM WILL BE NEARER 54 OR EVEN 55 BILLION.) HE THEN VOICED CONCERN AT OPEC'S ACTIONS AND NOTED THAT WHILE SAUDI AND UAE STANCES WERE MORE MODERATE, OVERALL EFFECT OF DOHA MEETING WOULD BE TO PLACE HEAVY PRESSURE ON FRENCH ECONOMY AND BALANCE OF PAYMENTS. HE ADDED THAT ALTHOUGH IT WOULD NOW TAKE SOME TIME TO MEASURE ACCURATELY EXACT EXTENT OF PRICE INCREASES, IT WAS NEVERTHELESS NECESSARY TO RECONFIRM HIS GOVERNMENT'S INTENTION TO LIMIT 1977 FOREIGN OIL PURCHASES TO 55 BILLION FRANCS--A LEVEL WHICH HAD NOW BECOME VERY CONSTRAINING BUT ONE WHICH MUST BE RESPEC-

TED. TO THIS END, HE CONTINUED, THE MINISTER OF INDUSTRY HAS PROPOSED A PROGRAM OF FURTHER NATIONAL ENERGY GUIDELINES AND CONTROLS WHICH WILL BE ADMINISTERED IN A WAY NOT TO INHIBIT FRANCE'S ECONOMIC ACTIVITY AND SOCIAL LIFE. GOVERNMENT OPERATIONS THEMSELVES WILL SET AN EXAMPLE OF CONSERVATIVE ENERGY PRACTICES.

3. MINISTER D'ORNANO THEN OUTLINED NEW ENERGY PROGRAM. HIGHLIGHTS FOLLOW:

A. HEATING OIL: PRIOR NATIONAL CONSUMPTION CEILING OF 31.2 MILLION TONS IS REDUCED TO 30 MILLION TONS

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INFO ALL EC CAPITALS 0280
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FOR PERIOD JULY 1, 1976, THROUGH JUNE 30, 1977. FORMER
TWENTY DEGREE CENTIGRADE HEATING LIMIT FOR PUBLIC AND
PRIVATE BUILDINGS IS TO BE MAINTAINED.

B. HEAVY FUEL OIL: CONSUMPTION OF HEAVY FUEL FOR
ELECTRICITY IS TO BE CUT FROM 13.8 TO 11 MILLION TON
YEARLY LIMIT, AND DOMESTIC COAL WILL MAKE UP SHORTFALL.
GOVERNMENT SURVEILLANCE SYSTEM IS BEING EXTENDED TO ALL
INDUSTRIAL CONSUMERS OF GAS AND ELECTRICITY TO PREVENT
TRANSFER OF ENERGY SOURCES BY INDUSTRIAL ENTERPRISES
THAT HAVE HAD TO CUT THEIR OIL CONSUMPTION.

C. GASOLINE: REGISTRATION FEES FOR HIGHER HORSE-
POWER CARS ARE BEING INCREASED. NEW SPEED LIMITS SET
LAST MONTH (78 MPH MAXIMUM ON SUPERHIGHWAYS) WILL BE
STRICTLY ENFORCED, AND SPEEDERS RISK ADMINISTRATIVE RPT
ADMINISTRATIVE SUSPENSION OF DRIVERS' LICENSES. NO RPT
NO GASOLINE RATIONING AS YET.

D. DIESEL OIL: A CONSERVATION PROGRAM IS BEING
WORKED OUT BETWEEN GOVERNMENT AND PROFESSIONAL TRUCKERS.

E. TAX DEDUCTIONS: PURCHASES OF CERTAIN ENERGY
SAVING DEVICES (INSULATION EQUIPMENT, SOLAR WATER HEAT-
ERS, FURNACE REGULATORS, ETC.) WILL BE TAX DEDUCTIBLE.

F. BUILDING CODES: NEW ENERGY SAVING SPECIFICA-
TIONS WILL BE STRICTLY ENFORCED.

G. HOUSEHOLD ELECTRICAL APPLIANCES: ALL SUCH
APPLIANCES WILL HAVE TO BEAR LABELS GIVING THEIR ENERGY
CONSUMPTION CHARACTERISTICS.

H. INDUSTRIAL INVESTMENT: PREFERENTIAL RATES WILL
BE GIVEN ON INVESTMENT LOANS WHICH SUPPORT INSTALLATION
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OF ENERGY SAVING PROCESSES.

I. OPERATIONS OF GOVERNMENT AGENCIES: A COMPREHENSIVE PROGRAM TO INSULATE GOVERNMENT BUILDINGS IS TO BE UNDERTAKEN; EACH MINISTRY IS TO DRAW UP A DETAILED ENERGY CONSUMPTION BUDGET; GASOLINE COSTS PROJECTED BY GOVERNMENT AGENCIES FOR 1977 ARE NOT RPT NOT TO BE REVISED AS RESULT OF PRICE INCREASES; AND ALL GOF VEHICLE PROCUREMENT IS TO BE LIMITED TO THOSE AUTOMOBILES APPROVED BY THE MINISTRY OF INDUSTRY AS HAVING LOW GAS CONSUMPTION CHARACTERISTICS.

4. WE HAVE DISCUSSED RESULTS OF DOHA MEETING WITH SEVERAL OIL COMPANY AND TRADE PRESS REPRESENTATIVES HERE. THESE SOURCES AGREE THAT, REGARDLESS OF HOW TWO-TIERED PRICE SYSTEM WORKS OUT, NEW OIL RATES ARE GOING TO PRESENT PROBLEMS FOR FRANCE AND COULD THREATEN PM'S ECONOMIC PROGRAM UPON WHICH GOF HAS STAKED SO MUCH. IMPORT MARKET IS SEEN AS STARTING OFF 1977 WITH LOW TURNOVER AS STOCKS BUILT UP DURING LAST QUARTER OF 1976 IN ANTICIPATION OF PRICE HIKES ARE DISTRIBUTED. THEN, COME SPRING, TWO-PRICE SYSTEM WILL COME UNDER PRESSURE AND--DEPENDING UPON WHICH SOURCE YOU BELIEVE--EITHER INCREASED SAUDI AND UAE PRODUCTION WILL BE HITTING MARKET AND PULLING DOWN HIGHER PRICED OILS (THIS IS VIEW CURRENTLY SUPPORTED BY OIL COMPANY REPS) OR INCREASES IN SAUDI AND UAE EXPORTS WILL BE INSUFFICIENT TO PULL MAJORITY OF OPEC EXPORTS DOWN AND PRICE OF CHEAPER OIL

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WILL DRIFT UP (THIS VIEW WE GOT FROM TRADE JOURNALISTS).
IN EITHER EVENT, OVERALL OIL IMPORT PRICE INCREASES FOR
FRANCE OF ABOUT 8 PERCENT ARE ESTIMATED FOR FIRST SIX
MONTHS OF NEW YEAR. IF SO, AN INCREASED YEARLY IMPORT
BILL FOR THIS COMMODITY OF NEARLY 6 BILLION FRANCS
(\$1.2 BILLION) IS FORESEEN AS NECESSARY TO MAINTAIN
ECONOMIC GROWTH AT PROJECTED RATES.

5. ONE ADDITIONAL WRINKLE TO SITUATION SURFACED DURING
TALKS WITH REPRESENTATIVES OF AMERICAN OIL COMPANIES
HERE. TWO-TIERED PRICE SYSTEM ANNOUNCED AT DOHA HAS
ALREADY STIMULATED QUESTIONS FROM GOF ENERGY PLANNERS
TO FOREIGN COMPANIES REGARDING SPECIFIC AMOUNTS OF
SAUDI AND UAE CRUDE THEY IMPORT. POSSIBLE NEED FOR
"CAISSE DE COMPENSATION" HAS BEEN MENTIONED, SUPPOSEDLY
IN ORDER TO PUT CRUDE ACQUISITION COSTS OF FRENCH
NATIONAL COMPANIES--WHICH HAVE LIMITED ACCESS TO SAUDI
ARABIA--ON PAR WITH AMERICAN INTERNATIONALS. WHILE
APPREHENSIVE OVER THESE POTENTIAL COMPENSATION DUTIES,

AMERICAN COMPANIES HAVE POINTED OUT THAT SUCH EXTRA TAXATION OF SAUDI AND UAE CRUDE BY FRANCE WOULD STIMULATE COMPANIES SIMPLY TO DIVERT THOSE PRODUCTS TO OTHER NATIONAL MARKETS WHERE THEY WERE NOT TAXED. (N.B. SAUDI AND UAE CRUDES CURRENTLY COUNT FOR ABOUT 45 PERCENT OF FRENCH IMPORTS.) ALSO, SINCE "CAISSE DE COMPENSATION" CONCEPT IS ONLY IN VERY FORMATIVE STAGE, AMERICAN COMPANIES ARE HOPING PM'S AND MINISTER D'ORNANO'S COMMON ECONOMIC SENSE WILL MILITATE AGAINST ADOPTION OF THIS IDEA.

6. COMMENT: RESULTS OF OPEC'S DOHA MEETING APPEAR LIKELY TO TRANSLATE INTO PAINFUL 6 BILLION FRANC INCREASE IN OIL IMPORT BILL, WHICH COULD SEVERELY COMPLICATE FRENCH ECONOMIC PLANS. NEVERTHELESS, PRIME MINISTER BARRE SEEMS READY TO USE THIS ILL WIND TO BLOW LIMITED OFFICIAL USE

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SOME GOOD BY LETTING IT HELP DRAMATIZE TO NATION URGENT NEED FOR INCREASINGLY STRINGENT ENERGY CONSERVATION MEASURES.
HARLAN

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